

CITY COUNCIL AGENDA STATEMENT

ITEM _____

MEETING DATE: March 25, 2003

ITEM TITLE: Resolution 1) Approving selection of the energy consulting team of Duncan, Weinberg, Genzer & Pembroke, McCarthy & Berlin and Navigant Consulting, Inc. ("Duncan/Navigant") to analyze the financial, legal and technical feasibility of various possible municipal energy businesses, and alternatives thereto;

2) Authorizing and directing staff to negotiate a consultant services contract with Duncan/Navigant consistent with the terms and conditions outlined herein, and;

3) Directing staff to return with a final proposed agreement and appropriation of funds for council consideration.

SUBMITTED BY: Assistant City Manager

REVIEWED BY: City Manager

(4/5ths Vote: Yes__ No X)

In May 2001, in response to an unstable energy market, the City Council adopted the "City of Chula Vista Energy Strategy and Action Plan" (Attachment 1). Components of that plan included direction to staff to pursue a cost benefit analysis of:

1. Operating a municipal energy utility business, including the potential for ownership and/or operation of all or a portion of the local distribution system;
2. Becoming a municipal aggregator for the purchase of electricity for City facilities, residents and/or businesses; and
3. Partnering with the Port District to repower and/or acquire capacity in a reconstruction of the South Bay Power Plant.

At that time, the City Council preserved future municipal energy utility options by adopting an ordinance that established the City as a municipal utility.

Since May 2001, City staff has implemented many of the Energy Strategy action items, and has developed considerable in-house expertise on energy issues. However, given the complexity of energy issues, specialty consulting services are now necessary to complete a cost/benefit options analysis. To complete the analysis, staff issued a request for proposal (RFP) for energy consultant services in December of 2002. The timing of this analysis is ideal. The expiration of the electricity and natural gas franchise agreements with San Diego Gas and Electric provide the City with a unique opportunity to evaluate and make comparisons on the most cost effective means of providing reliable energy supply to

City facilities, residents and businesses and controlling at least some of the revenues generated by the delivery of energy to local residents and businesses.

This report outlines staff's recommendation based on the consultant selection process.

RECOMMENDATION

Staff recommends that the City Council adopt a Resolution:

1. Approving selection of the energy consulting team of Duncan, Weinberg, Genzer & Pembroke, McCarthy & Berlin and Navigant Consulting, Inc. ("Duncan/Navigant") to analyze the financial, legal and technical feasibility of various possible municipal energy businesses, and alternatives thereto;
2. Authorizing and directing staff to negotiate a consultant services contract with Duncan/Navigant consistent with the terms and conditions outlined herein, and;
3. Directing staff to return with a final proposed agreement and appropriation of funds for Council consideration.

BOARDS/COMMISSIONS RECOMMENDATION

Not applicable.

DISCUSSION

During the course of implementing the elements of the Energy Strategy and the development of its own expertise on energy issues, staff has become more keenly aware of the potential opportunities of some form of a municipal energy utility business (MEU). Whether or not some form of a municipal energy utility works for the City of Chula Vista is the subject of the proposed MEU analysis. The following are representative of the items that have peaked staff's interest in determining the feasibility of an MEU in Chula Vista.

- U.S. Department of Energy data indicates that residential customers of an investor owned utility paid rates 16% above those paid by customers of a publicly owned system. Commercial customers paid 9% more.
- A municipal energy utility could provide greater local control over energy revenues and programs. For example, current SDG&E programs for use of Public Purpose fees and Rule 20a undergrounding fees are beneficial, but might be improved and tailored to meet Chula Vista's goals and objectives under an MEU. Currently these programs are subject to CPUC regulations and SDG&E's own service territory-wide priorities.
- An MEU could be a valuable economic development tool to attract and retain businesses and enhance local quality of life.
- The City has been contacted by three separate entities extolling the potential benefits of an MEU. Although each contact was independent, the identification of potential benefits were similar in nature and content.

- As an MEU, the City could also more directly control the procurement of a renewal energy supply.
- The City's size, growth potential, local power generation options, and an expiring energy franchise could present unique MEU opportunities.

A. Development of the MEU Study Scope of Work

In December 2002, staff issued an RFP for consulting services to evaluate various possible MEU businesses, along with alternative approaches to meeting the City's energy objectives. In preparing the RFP, staff reviewed numerous RFPs on similar subjects that had been prepared, or were being prepared, for issuance by other California public agencies. Staff also consulted with and received input from SDG&E. Based on that input, staff implemented several revisions to the RFP Scope of Work. Staff also solicited proposals from consultants SDG&E recommended as qualified. Staff believes SDG&E input to this process is important and will continue to solicit such input where appropriate.

The following city energy objectives were described in the RFP:

- Reliable energy supply delivered at stable rates
- A high level of customer service
- A cost benefit formula that justifies the City's time and investment
- An environmental benefit for City residents
- Broad distribution of MEU benefits
- The utilization of the MEU as an economic development tool to retain and attract businesses

The RFP Scope of Work (Attachment 2) identified specific issues to be addressed by the energy consultant. Highlights of that scope of work are identified below. The scope of work was designed to get answers to the questions: Is it desirable for the City to pursue the implementation of an MEU business? If so, what form of MEU?

Specifically, the following information was required:

1. Identify the characteristics of Chula Vista that present opportunities or challenges to MEU implementation.
2. Estimate and describe the costs, risks, potential environmental impacts and vulnerabilities of MEU formation and implementation; determine how such costs and risks can be managed and mitigated.
3. Describe the current legal, regulatory, political and economic framework in which an MEU would operate, the challenges and opportunities presented thereby, and approaches to overcoming and taking advantage of same.
4. Estimate the financial and human capital resources required for each stage of municipalization.
5. Describe the potential benefits of an MEU operation in Chula Vista: In what specific ways could a Chula Vista MEU deliver benefits not currently provided by SDG&E?
6. Identify alternative/lower risk approaches to MEU implementation

- including potential partnerships with SDG&E.
7. If justified, recommend an initial MEU business model that would implement City energy objectives.

B. The RFP Process

Issuance

On December 20, 2002, staff distributed the RFP by mail and email to more than sixty energy-consulting firms (including SEMPRA, SDG&E's parent company). On January 9, 2003 approximately nineteen representatives from fifteen consulting firms attended the pre-bid conference. (SDG&E was also represented at the pre-bid conference.)

Shortlist Selection

On February 7, 2003 the City received nine responses to the City's RFP. A City MEU Selection Committee, approved by the City Manager, was formed to evaluate the proposals. This team included municipal industry experts as well as City staff: Bill Carnahan, Executive Director of Southern California Public Power Authority; David Wright, Deputy Director of City of Riverside Municipal Utility Department; Sid Morris, Assistant City Manager; Maria Kachadoorian, Director of Finance; Dave Byers, Director of Public Works-Operations; Glen Googins, Sr. Assistant City Attorney; Michael Meacham, Special Operations Manager; and Willie Gaters, Environmental Resource Manager.

A preliminary screening was conducted, and each proposal was numerically scored and ranked based on the City's selection criteria published in the RFP. The top five respondents to the RFP were placed on a short list for interviews.

<u>Consulting Firm</u>	<u>Rank (Assigned Score)</u>	
<u>Selected for Interview Shortlist</u>		
• R.W. Beck	1	(210)
• Duncan/Navigant	2	(201)
• Alliant Energy Integrated Services & SMH Team	3	(195)
• Black and Veatch	4	(188)
• GDS Associates & SAIC Team	5	(186)
<u>Not Selected for Interview</u>		
• EES Consulting	6	(160)
• McDonald Partners & Michael Woods Team	7	(139)
• Astrum Utility Services Team	8	(123)

- Milbank, Tweed Team 9 (94)

Short listed teams were scheduled for interviews over a two-day period (March 5-6). Each interview lasted approximately 2 hours. The interview process included prepared questions that were provided to the energy consulting firms in advance as well as proposal-specific and industry-specific questions from the outside experts. The advance questions were designed to calibrate aspects of the energy-consulting firm's proposal with the City's RFP objectives such as project team make-up, assigned project manager, proposed tasks, deliverables, project costs, schedule, presentation style and consultant's knowledge of the industry. The proposal-specific questions were designed to address the technical aspects of each proposal that required clarification or expansion (e.g. specificity as to the ratio of financial, technical, and legal services provided in the proposals to address the City's scope of work). Industry-specific questions were asked by the City's outside experts to gauge the energy consulting firm's understanding of the current energy environment and to gauge the consultant's level of sophistication.

Following the interviews, the energy-consulting firms were again numerically scored and ranked based on overall presentation, technical expertise, cost, and the ability to adequately address the proposed scope of work. A key factor was each respondents intent and ability to provide the City Council with a firm "go/no go" recommendation on the implementation of an MEU business, or alternative approaches. The City's MEU Selection Committee unanimously, ranked the top two firms in the 1 and 2 positions. Duncan/Navigant and R.W. Beck, respectively were selected for further consideration.

<u>Consulting Firm</u>	<u>Interview Ranking (Assigned Score)</u>
-------------------------------	--

Selected for Further consideration

- | | | |
|--|---|-------|
| • DWG&P/MB and Navigant Consulting Team
(All City MEU Selection Committee members ranked team in number 1 position) | 1 | (302) |
| • R.W. Beck
(All City MEU Selection Committee members ranked team in number 2 position) | 2 | (267) |

Not Selected for Further Consideration

- | | | |
|---|---|-------|
| • Alliant Energy Integrated Services & SMH Team | 3 | (202) |
| • GDS Associates & SAIC Team | 4 | (151) |
| • Black and Veatch | 5 | (145) |

Reference checks were conducted on both finalists. In addition, each firm was

requested to respond to an additional set of questions intended to “drill down” into the experience/background of each that was most directly related to the scope of work identified by the City. Examples of these questions include:

- Describe your team’s level of knowledge with the Department of Water Resources (DWR) power contracts.
- Describe any involvement your team has regarding ongoing discussions pertaining to “exit fees” (i.e., the charge by the State of California to local jurisdictions to opt out of the State energy contracts).
- Provide a 5-year history, and relevant reference contacts, pertaining to “go/no go” recommendations for municipalization efforts.
- Please address/justify the need for legal services as part of the Phase I analysis.

Staff was particularly interested in the consultant’s response to the question on legal services. This component of the RFP was a major, differentiating point in the comparison of the two finalists – Duncan/Navigant and R.W. Beck. As originally submitted, the two proposals addressed the technical aspects of evaluating the MEU options in a comparable fashion. One significant distinction between the two proposals was that Duncan/Navigant also included an integrated legal and legislative/regulatory analysis component. Staff’s view is that a focused, integrated legal analysis of issues like exit fees, potential cost of wires acquisition and severance, corporate structure and risks and liabilities is crucial to informed decision-making in this complex area.

R.W. Beck was given an opportunity to revise the relatively limited legal component of its submittal in order to insure that staff could make an appropriate comparison of the component parts of the proposals and their related costs. R.W. Beck did identify qualified legal counsel with whom the City could work; what remained missing, however, was an integrated legal/business analysis with a set cost amount.

Contract Cost

Duncan/Navigant: The original cost proposal submitted by Duncan/Navigant was \$330,000. Based on preliminary discussions regarding clarification of scope and expenses, this amount was revised downward to \$275,000, including expenses. Work would be performed on a time and materials basis not to exceed \$275,000.

R.W. Beck: The original cost proposal from R.W. Beck was a fixed fee of \$145,904 plus expenses. Based on preliminary discussions regarding clarification of scope, R.W. Beck revised its proposal to include legal services that were estimated (but not fixed) at \$50,000. In addition, R.W. Beck’s proposal assumed utilization of existing City agreements for legal services to supplement its legal component. Staff estimated that cost at between \$25,000 - \$50,000. In sum, this equates to a total contract price estimated (but not fixed) at \$225,000 - \$250,000 plus expenses.

Consultant Recommendation

Staff is recommending a contract with the Duncan/Navigant group based on the following analysis:

- The proposal as originally submitted (Attachment 3) was complete in its approach, addressing all of the major scope of work components.
- The consultant team Duncan/Navigant has a longstanding working relationship with one another, and past efforts by this group reflect extensive, detailed research in addressing the client's concerns.
- Duncan/Navigant was most knowledgeable in identifying the South Bay Power Plant and other possible local generation options as a potential key opportunity for a Chula Vista MEU.
- Duncan/Navigant was most clear in its intent and ability to provide the City with an "actionable intelligence".
- The consultant has relevant California experience including extensive work with California regulatory agencies.
- The consultant has demonstrated the experience and ability to deliver a report on time, within budget and according to established criteria.
- The consultant team exhibited the best overall breadth and depth of energy industry sophistication.
- Duncan/Navigant offered the greatest number of hours applied to the task, approaching, in many respects, a phase II level of analysis.

Overall, the Duncan/Navigant team was identified as providing the best balance of skills and expertise necessary to deliver the required scope of work.

If approved, staff will return to Council with a final contract consistent with the scope as outlined in the RFP.

Consultant Selection Guidelines

The consultant selection process complies with the guidelines established by the City. The proposed consultant has performed no work for the City, and earned no money, during the past twelve months. Further, Duncan/Navigant has identified no potential conflicts of interest.

C. City Strengths and Weaknesses

During the interviews, consultants were asked to identify the City's strategic strengths and weaknesses with regard to formation of an MEU business. Consistently, Consultants identified the following strengths:

- A proactive City Council. A successful municipalization effort requires community leaders to champion the effort.
- A comprehensive Energy Strategy
- A Franchise Agreement, which expires in 2003.

- A growing housing, commercial and industrial base.
- The City already owns energy infrastructure that has produced savings: (streetlights), and operates its own utility system (sewer).
- “Economy of Scale.” A Chula Vista MEU customer base would be in the top 15 of all 48 utilities in California and would be in the top 50 to 100 of more than 2,000 public utilities nationwide (if the entire existing and proposed new developed territories are included).
- New (Greenfield) development could represent an excellent “low level of investment” opportunity to begin a municipal utility.
- Chula Vista is roughly the size of a utility “regional office.” Since utilities cover large areas, regional offices are set up as individual profits centers to better manage safety, reliability and operating costs.
- Chula Vista has an attractive energy (gas and electricity) load profile that would attract competitive bids for power contracts from private and public power providers.
- Attractive supply options exist with the potential repowering of the South Bay Power Plant.

The energy consultants also commented that the City’s strategic weaknesses include the following:

- SDG&E is likely to mount an aggressive challenge to any municipalization effort.
- A stabilizing energy market - in the near term – could draw consumer attention away from rising cost of energy.
- The financing cost of new construction and/or acquisition of energy infrastructure will be a major issue.
- The configuration, availability and proximity of energy infrastructure (gas pipes and electricity transmission) will present a challenge.
- Legislative changes on the state and federal level will influence the feasibility of all options since exit fees; stranded costs and severance fees are currently being established, and may change in the future.

FISCAL IMPACTS

Adoption of the proposed resolution requires an appropriation from the unappropriated balance of the General Fund. The cost proposal for the MEU Analysis is for a guaranteed maximum price of \$275,000 including expenses. Given the importance of this study in helping to compare the relative value of a long-term franchise renewal and on MEU business, staff believes this expenditure is more than justified.

ATTACHMENTS:

1. City Energy Plan and Action Plan or Energy Strategy
2. MEU Scope of Work
3. Duncan Weinberg Genzer & Pembroke/McCarthy & Berlin and Navigant Consulting Team Proposal